

1 section:
vocabulary

Fill in the missing word(s) in the space provided at the right.

Example: One of the earliest forms of credit was the _____ at the local general store.

- | | |
|---|---------------------------------|
| 1. The free period, also called _____, allows you to avoid a finance charge if you pay in full before the due date. | 0. _____ account |
| 2. One who lends money or the use of goods and services for payment at a later date is known as a(n) _____. | 1. <i>grace period</i> |
| 3. Paying at a future date for the present use of goods and services or money is called _____. | 2. <i>creditor</i> |
| 4. A(n) _____ is a pre-established amount that can be borrowed on demand. | 3. <i>credit</i> |
| 5. A loan on which the goods purchased with the loan serve as _____ is a type of secured loan. | 4. <i>line of credit</i> |
| 6. _____ is credit whereby you can add purchases up to a set credit limit. | 5. <i>collateral</i> |
| 7. A loan for a specific amount that must be repaid in full, including finance charges, by a stated due date, is called _____ credit. | 6. <i>Open-end credit</i> |
| 8. A(n) _____ is money borrowed against the credit card limit. | 7. <i>closed-end</i> |
| 9. A manufacturer-related company, called a(n) _____, makes loans through authorized representatives. | 8. <i>cash advance</i> |
| 10. _____ are unlicensed lenders who charge illegal interest rates. | 9. <i>sales finance company</i> |
| 11. A service to customers called _____ allows you to charge now and not be billed for several months. | 10. <i>Loan sharks</i> |
| 12. The interest you pay for the use of credit is called a(n) _____. | 11. <i>deferred billing</i> |
| 13. Almost everyone uses _____ credit, which involves having work performed and paying for it later. | 12. <i>finance charge</i> |
| 14. Businesses called _____ stores offer goods and services directly to consumers and include department stores, drugstores, and clothing stores. | 13. <i>service</i> |
| 15. Small loan companies, also called _____, charge higher interest rates and take more risk. | 14. <i>retail</i> |
| 16. In some states, maximum interest rates are set by _____ laws. | 15. <i>finance companies</i> |
| 17. A(n) _____ is a legal business where loans are made based on the value of merchandise used as collateral. | 16. <i>usury</i> |
| 18. Something of value that can be sold to pay a debt is often referred to as _____. | 17. <i>pawnbroker</i> |
| | 18. <i>collateral</i> |

2 section: review questions

After each of the following statements, circle *T* for a true statement or *F* for a false statement.

	Answers	For Scoring
1. Most disadvantages of credit can be eliminated by wise use of credit.	T F	1. <u>T</u>
2. Department stores, drug stores, and finance companies are all examples of retail outlets.	T F	2. <u>F</u>
3. Interest rates on loans are usually higher at credit unions than they are at banks.	T F	3. <u>F</u>
4. Where no usury laws exist, financial institutions may charge whatever rate of interest is agreed upon.	T F	4. <u>T</u>
5. In an installment purchase agreement, the item you are purchasing will serve as the collateral.	T F	5. <u>T</u>
6. Affinity cards charge higher interest rates than regular bank credit cards.	T F	6. <u>F</u>
7. Credit has helped the American economy to grow at a healthy pace.	T F	7. <u>T</u>
8. A line of credit is a preestablished amount you can borrow without a new loan application.	T F	8. <u>T</u>
9. The Truth-in-Lending law requires all lenders to calculate APR the same way.	T F	9. <u>T</u>
10. A debtor is a person who borrows money from others.	T F	10. <u>T</u>

On the line at the right of each sentence, print the letter that represents the word or group of words correctly completing the sentence or answering the question.

1. Credit cards such as VISA and MasterCard are examples of (a) 30-day credit agreements, (b) revolving credit agreements, (c) APRs, (d) installment loans.	<u>b</u>	1. _____
2. Which of the following is an example of service credit? (a) telephone bill, (b) bank credit card, (c) gasoline purchase, (d) retail store agreement	<u>a</u>	2. _____
3. Finance companies charge higher rates of interest on loans because (a) they are small and have less money to lend, (b) they have lenient loan policies, (c) they take more risk, (d) they compete with banks and savings and loans for business.	<u>c</u>	3. _____
4. Pawnbrokers sell merchandise you have pawned, called _____, if you do not repay the loan plus interest by a specified date. (a) note, (b) security, (c) capital, (d) collateral	<u>d</u>	4. _____
5. Which statement about an installment purchase agreement is not true? (a) Interest is included in each monthly payment. (b) New purchases may be added on. (c) New purchases may not be added on. (d) This type of account generally has a maximum amount.	<u>b</u>	5. _____
6. GMAC Financial Services is an example of a (a) retail store, (b) credit union, (c) sales finance company, (d) loan shark.	<u>c</u>	6. _____

3 section:
problem solving**Activity 16.1 Advantages and Disadvantages of Using Credit**

Directions: From memory, list four advantages and three disadvantages of using credit. Apply them to your personal life or as listed in the textbook.

1. List four advantages of credit:

a. *can provide emergency funds*

b. *establishes credit record*

c. *makes shopping convenient*

d. *provides record of purchases (students may have others)*

2. List three disadvantages of credit:

a. *costs more*

b. *ties up future income*

c. *can lead to overspending (students may have others)*

3. Answer the following questions as to your beliefs.

a. Do the advantages of credit outweigh the disadvantages of credit?

b. Could a person survive in our economy without using credit at all?

c. What are some ways that all people must use some form of credit?

d. How will you use credit this year?

Answers will vary.

Activity 16.2 The Great Depression

Directions: Interview a person who lived through the Great Depression (1930s). Ask the person the following questions and record his or her answers.

Person's name _____ Age during Great Depression _____

Where did person live (city, state)? _____

What major things do you remember about the Depression?

What things do you do today (or not do) because of your experiences during the Depression?

Do you think we could have another Great Depression? Why or why not?

What advice can you give people today with regard to the use of credit?

Answers will vary. Ideal for group activity and classroom discussion.

Activity 16.3 Retail Stores

Directions: For four retail stores in your area, complete the following information. Most of it you will know because you shop there; in other cases, you will need to ask parents or friends or go to the stores.

- List four retail stores in your area. Include a department, drug, grocery, clothing, or specialty (e.g., jewelry) store. In the right columns, put an X on the line indicating which type of credit card is honored at each store.

Retail Stores	Accepts Store Credit Cards	Accepts Bank Credit Cards
a. _____	_____	_____
b. _____	_____	_____
c. _____	_____	_____
d. <i>Answers will vary.</i>	_____	_____

- Of the above stores listed, how many offer regular charge account credit? _____
installment credit? _____ *Answers will vary.*

- Choose one major chain store or national or regional store (e.g., JC Penney, Sears, Wal-Mart). Describe the types of credit plans that are available.

a. Regular charge account credit: _____

b. Installment purchase agreement: _____
Answers will vary; most chain stores offer all the types of credit plans, in addition to accepting major bank credit cards.

- List two retail stores in your area that accept cash only.

Students may be able to locate a few businesses that do not accept credit cards. The businesses are usually very small.

- What kind of discount is given at these retail stores because cash is paid?

Usually no discount is given at retail stores. Even though credit does bring more business, students may locate occasional thriving businesses where some type of discount or other incentive is given to persons who do not use credit.

Activity 16.4 Credit Questionnaire

Directions: Answer the following questions in the space provided.

1. Do you use credit in any form? If so, how?

2. Do you feel credit has increased your standard of living? Explain.

3. Do you think Americans in general rely on credit too much?

4. What advice can you give to people beginning to work for the first time and starting out on their own in relation to credit?

5. Do you know anyone with credit problems? What did they do wrong?

6. How many credit cards do you carry in your wallet?

_____ None _____ 1–5 _____ 6–10 _____ 11–15 _____ More

7. What major purchases do you have planned for the next five years?

8. If you needed to borrow a large sum of money, what three places, in order of preference, would you go to apply for a loan?

a. _____

b. _____

c. _____

9. If you found that you were in financial trouble because of credit and had great difficulty paying your monthly bills, what would you do?

Answers will vary. Makes a good discussion tool, because opinions vary widely concerning credit and the wise use of it. If the class seems polarized, it can be effective to divide into teams and have a debate, asking a neutral person or panel of judges to decide who made the best argument.

Activity 16.5 Your Credit Card Means Freedom

Directions: Read the information below and then answer the questions that follow.

Some people believe that credit cards are evil—that they lead to overspending, to debt problems, and to moral decline. But credit cards can also mean the difference between having a good vacation and staying at home. Consider the following:

1. In order to rent a car, you will need a credit card. The card must have a limit high enough to allow for charges of \$150 or greater. Most rental companies will not accept cash or debit cards because they want assurance that there is a source of payment if you incur other charges, such as by keeping the car longer or by damaging it.
2. Motels and hotels usually also require a credit card. Once you have checked out and are ready to leave, they may allow you to use a debit card or cash, but in order to secure a reservation and in order to stay at the facility, you will need a valid credit card with available credit for charging.
3. While on the road, you may also need a credit card to buy gasoline. Many stations do not accept cash after dark. The only way to obtain self-service gasoline may be to use your credit card at the pump. If you have an emergency, such as needing a tow truck, the credit card provides a way to pay for it on the spot. When you're out of town, most merchants will not accept checks, so the credit card allows you the instant ability to buy necessities.
4. A credit card is a safer way to carry money when you travel. If the card is lost or stolen, you can get it replaced and can get cash advances from the card by calling the card issuer's toll-free number. If your cash is stolen, however, you cannot get it replaced.
5. If you are traveling in a foreign country, using your credit card will enable you to get the up-to-the-minute exchange rate, thus preventing merchants from giving you less than your fair dollar's worth. Both debit and credit cards can be used to get foreign currency from ATM machines abroad as well, also giving you the best exchange rate possible.

Credit cards are not evil. They're tools that can be used wisely to make your travel plans flow much more smoothly.

1. Have you been in a situation where a credit card would have been very useful? Describe what happened.

Answers will vary.

2. Explain why cash is not always the best thing to have in order to pay for your vacation expenses.

Out of necessity, travelers would need to carry a great deal of cash. Therefore, loss or theft of cash becomes a major problem.
